

# Strategy Research Project

## A STUDY OF CHINA AND THE USE OF COERCIVE ECONOMICS

BY

COMMANDER CHRISTOPHER H. REHKOP  
United States Navy

DISTRIBUTION STATEMENT A:

Approved for Public Release.  
Distribution is Unlimited.

USAWC CLASS OF 2011

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.



U.S. Army War College, Carlisle Barracks, PA 17013-5050

The U.S. Army War College is accredited by the Commission on Higher Education of the Middle State Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

# REPORT DOCUMENTATION PAGE

*Form Approved  
OMB No. 0704-0188*

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. **PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.**

<b>1. REPORT DATE (DD-MM-YYYY)</b> <b>10-03-2011</b>			<b>2. REPORT TYPE</b> Strategy Research Project			<b>3. DATES COVERED (From - To)</b>		
<b>4. TITLE AND SUBTITLE</b> A Study of China and the Use of Coercive Economics			<b>5a. CONTRACT NUMBER</b>					
			<b>5b. GRANT NUMBER</b>					
			<b>5c. PROGRAM ELEMENT NUMBER</b>					
<b>6. AUTHOR(S)</b>  Commander Christopher H. Rehkop			<b>5d. PROJECT NUMBER</b>					
			<b>5e. TASK NUMBER</b>					
			<b>5f. WORK UNIT NUMBER</b>					
<b>7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)</b>  Professor John F. Troxell Center for Strategic Leadership			<b>8. PERFORMING ORGANIZATION REPORT NUMBER</b>					
<b>9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b>  U.S. Army War College 122 Forbes Avenue Carlisle, PA 17013			<b>10. SPONSOR/MONITOR'S ACRONYM(S)</b>					
			<b>11. SPONSOR/MONITOR'S REPORT NUMBER(S)</b>					
<b>12. DISTRIBUTION / AVAILABILITY STATEMENT</b> Distribution A: Unlimited								
<b>13. SUPPLEMENTARY NOTES</b>								
<b>14. ABSTRACT</b> China has the fastest growing economy in the world, expanding at approximately 10 percent a year for the last three decades and recently surpassed Japan as the world's second largest economy. However, the rise of economic power in an authoritative state has come with a price and a challenge to the international system. Globalization has introduced a paradigm shift in the balance of power through the expanded use of coercive economics. Coercive economic influence historically has been exercised through the use of sanctions, blockades and embargoes. However, economic power and the effective use of coercive economics have transcended to an effective element of national power by leveraging globalization. China has become an integrated player in the world economic market and has leveraged its economic influence within the international system.								
<b>15. SUBJECT TERMS</b> Globalization, Global System, International System, Hard Power								
<b>16. SECURITY CLASSIFICATION OF:</b>			<b>17. LIMITATION OF ABSTRACT</b>  UNLIMITED	<b>18. NUMBER OF PAGES</b>  26	<b>19a. NAME OF RESPONSIBLE PERSON</b>			
a. REPORT UNCLASSIFIED					b. ABSTRACT UNCLASSIFIED	c. THIS PAGE UNCLASSIFIED	19b. TELEPHONE NUMBER (include area code)	



**USAWC STRATEGY RESEARCH PROJECT**

**A STUDY OF CHINA AND THE USE OF COERCIVE ECONOMICS**

by

**Commander Christopher H. Rehkop  
United States Navy**

**Professor John F. Troxell  
Project Adviser**

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The U.S. Army War College is accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

**U.S. Army War College  
CARLISLE BARRACKS, PENNSYLVANIA 17013**



## **ABSTRACT**

AUTHOR: Commander Christopher H. Rehkop

TITLE: A Study of China and the Use of Coercive Economics

FORMAT: Strategy Research Project

DATE: 10 March 2011 WORD COUNT: 5,332 PAGES: 26

KEY TERMS: Globalization, Global System, International System, Hard Power

CLASSIFICATION: Unclassified

China has the fastest growing economy in the world, expanding at approximately 10 percent a year for the last three decades and recently surpassed Japan as the world's second largest economy. However, the rise of economic power in an authoritative state has come with a price and a challenge to the international system. Globalization has introduced a paradigm shift in the balance of power through the expanded use of coercive economics. Coercive economic influence historically has been exercised through the use of sanctions, blockades and embargoes. However, economic power and the effective use of coercive economics have transcended to an effective element of national power by leveraging globalization. China has become an integrated player in the world economic market and has leveraged its economic influence within the international system.



## A STUDY OF CHINA AND THE USE OF COERCIVE ECONOMICS

China has the fastest growing economy in the world, expanding at approximately 10 percent a year for the last three decades and recently surpassed Japan as the world's second largest economy.<sup>1</sup> However, the rise of economic power in an authoritative state has come with a price and a challenge to the international system. Globalization has elevated the effects on the balance of power by the use of coercive economics. China has become an integrated player in the world economic market and has leveraged its economic influence within the international system.

Globalization has changed the international order and fostered the reemergence of peer competitors and regional challengers. The U.S. – China relationship has been hypersensitive and unrewarding over the last several decades. The United States has a history of employing threats and applying economic sanctions to alter Chinese domestic and international behavior.<sup>2</sup> Although U.S. policies had influenced Chinese policies and behavior, the overall result was a failure of effective use of economic sanctions and loss of credibility in policy and administration enforcement. With the interest, vision and priorities of the United States diverted by two major wars, the last decade has seen China transition from a non-intrusive bystander into a significant challenge to the United States. The future of the U.S. economy and the nation's security may be predicated upon the policies that the United States currently adopts towards China's rise on the world stage. The United States must be prepared and postured for a comprehensive cooperation strategy in balancing the prevailing economic and military influence from China to maintain the international system and balance of power in perpetuity.

There are increasing concerns about China's influence on the world market and ultimately on the international system and global balance of power. China's growing economic influence and current military modernization poses a unique challenge to international and U.S. national security in this post cold war environment. Whether China is considered a peer or competitor will be determined by the policy set forth by the current administration.

This paper attempts to identify and analyze the use of coercive economics associated with the rise of China as a global market leader. The expanded role of coercive economics is influenced by three fundamental concepts: the transition of the international system to the global system; economic evolution of the 21<sup>st</sup> century; and the role of power in the international community. Just as theories of war evolve, the influencing factors of the international system and balance of power change too. The inter-relationship between the analysis of the international system and balance of power sets the stage for determining the effects of coercive economics.

### The Global System

The dynamic economic environment within the world market and China's role as an influential player has created a potential coercive influence in applying diplomatic, military and economic approaches. As the Peace of Westphalia signifies the start of international affairs, the start of the 21<sup>st</sup> century signifies the birth of understanding the role of globalization within the international order.

To understand coercive economics and its application, one should commence with the history and theory of international diplomacy and the role of balance of power. The Westphalia settlement is the recognized transition to "sovereign" states and the rise of international affairs. The determination of state actors has been centered on the

recognized sovereignty or legitimacy of states. States were transformed into a political unit that encompasses territory and sovereignty, which distinguished them from nations, which are an ethnic group or conglomeration of ideologies.<sup>3</sup> State legitimacy can only be recognized by other states. In addition to the Peace of Westphalia initializing formal state sovereignty, it also signified the start of international affairs or the international system, a political system. There are three levels of analysis that can be attributed to understanding the dynamics of the international system as it relates to the use of economic power and is still universally applicable even to today's standards. The three levels of analyses are the individual, state and system levels.<sup>4</sup> The lowest level, individual, is based on making decisions and is focused on individual decision makers, personalities, and life histories. These decisions are based on the imperfections of human nature and can be subdivided into four main approaches, the cognitive psychology, motivational psychology, behavior economics and psychobiography.<sup>5</sup> From this analysis, international events and the subsequent response can to some extent rest on the leader's fears and psychology. The decision by President Bush to invade Iraq in 2003 is a recent and relevant example. The second type of analysis is the state level. State level focuses on the behavior and actions of the state and its interplay of domestic political and economic actions.<sup>6</sup> Domestic agendas often lay the framework for the use of coercive force in executing and preserving national level interests. The last level of analysis is the system level. The system level focuses on the international political system as a whole.<sup>7</sup> Although the analysis process varies, the overall understanding is usually based on dissecting the inter-relationships between the

three levels of analysis. No one situation can be narrowed down to a certain level, but rather a combination of levels.

With the end of the Cold War, globalization has supplanted the international system. In contrast to the Cold War and the International system, globalization has its own structure and is built around three primary balances. Just like the International System, the traditional balance between nation states is still critical to the stability of this system. Globalization has changed the way we perceive geopolitics and it is no longer divided between two major players.<sup>8</sup> The second and third balances are where the differences occur. The globalization system has expanded beyond the traditional role of nation states and included the leverage of global markets. Global markets are the key financial centers worldwide, such as Wall Street, Hong Kong, London and Frankfurt. The actions and effects from the global markets have huge impact to even nation states. Additionally, actions initiated by nation states can have significant second and third order impacts to the financial markets. The final balance within the globalization system is the balance between nation states and individuals. Super-empowered individuals now have nation state influence. Technology has connected these individuals into networks that have opened the freedom of movement.<sup>9</sup> Gone are the barriers between countries, markets and disciplines.<sup>10</sup>

As cited by Thomas L. Friedman in *The Lexus and the Olive Tree*, globalization is not just a one, two or three-dimensional system, but is considered a multi-dimensional system. Traditional foreign policies once grounded only on politics and culture have expanded in dimensions to include technology, financial, national security and ecological.<sup>11</sup> The inter-connectedness has lowered the boundaries and all must be

considered to understand the environment. As globalization continues and evolves, the multi-dimensional facets recognized today will undoubtedly change and grow. The holistic view of the world is what makes globalization powerful.

The comprehensive interaction within the multi-dimensional global system embodies the essence of globalization which empowers actors and shapes domestic and foreign policies. The role of the global system as it relates to domestic economic objectives is the backbone for the decision process in using coercive economics as a diplomatic tool. In summary, globalization has led the world to be perceived as flat, but with the speed of information, technological advancements and borderless nations, the world in effect is just a click away from being a point in space and time.

### Economics

The role of economics within national power has never been more important. The well known strategy model provides a relationship of strategy to three pillars, objectives (ends), concepts (ways) and resources (means). The pillars should be balanced to support the strategy, and are evaluated for feasibility, acceptability and suitability. Economics plays a crucial role in all three elements of strategy. Strategies that improperly support the ends, ways and means are inherently risky and re-evaluation of the strategy must be considered. Competition for natural resources, trade and manufacturing seams are all examples of the international economic activities that can shape the domestic economic landscape and national security strategy. A certain standard of living demands a viable economy and economics becomes a vital component of the ends, ways, and means of security and national power.<sup>12</sup> A long-term government maintains a strong and vibrant economy. The strength and control of the global system can be portrayed as to the dominant or prevailing market.

Selling power is harnessed by monopolies or oligopolies and thus has significant influence on the international system. A monopoly on a strategic asset, capability or raw material has the potential to alter national strategy in support of an economic interest or objective.<sup>13</sup> The global system does not currently display a perfect market in which selling power is dispersed.<sup>14</sup> In the past, few resources have had that type of impact, the main one being the impact of oil.

Economically, the balance of power has the potential to shift by mere market influence in this current globalized world market. China has cornered markets and has the economic coercive power to ease actors out of the market place. A current example of Chinese market power is the world-wide reliance on rare earth minerals. Additionally, not only can nations withhold resources, but they can coerce sellers to prevent the sale to competitors or opponents.<sup>15</sup> Looking into the future, environmental and green energy policies for clean air and water may head the list of growing strategic assets that create the opportunities to exercise coercive economic power.

At the heart of achieving national interest, economics plays a vital role in supporting ways and means. Globalization has opened up boundaries between states and has created economic gaps within societies. Developing countries have been able to transfer wealth from developed countries. A resistant economy can spend freely without repercussions. However, an economy recovering from economic crisis and highly dependent on borrowing and low cost imports will create future economic and political problems.<sup>16</sup> Deficit spending and deficit trade aggregates have a multiplier effect of the economic power potential and lends itself to the leverage of coercive economics. The second and third order impacts to the domestic economy have made

the United States dependent on global trade imbalances. Instead of fostering economic growth potential, it has subconsciously created an addiction.

At the very tail of the economic influence in the world market, is the impact to military operations. Budget restraints, natural resources scarcity, purchasing power and government debt financing have implications to the effectiveness and deployability of the military as an instrument of national policy. The stunning affects of economics as an element of national power can effectively reduce policy options.<sup>17</sup>

Economics will only increase its importance within the national security envelop in the future. State, non-state, and super-empowered individuals will leverage the economic tools and global market place to effectively exert economic influence and deter military power.<sup>18</sup>

### Theory of Coercive Economic Power

The integration of the global system and world economics have revolutionized the way the world operates. The power relationships between nations, states and other actors are reaching a super-critical level. Leveraging power has become the key to unlocking foreign policies. Power in general is the ability to get the outcomes that one desires. Soft power is through the use of attraction to gain what you want. Soft power predominantly relies on the appeal and desirability of a country's culture, political values and government policies. If perceived to be legitimate, credible and enduring by others, soft power is enhanced.<sup>19</sup> Soft power is highly dependent of the context in which it is being used.<sup>20</sup> The attractiveness of soft power has many manifestations, but it also can have limitations to attractiveness through unpopular politics, inconsistent policies and abrasive or unacceptable cultural boundaries.

Hard power traditionally thought of as leveraging military power by coercion or persuasion to meet national ends, can also be exercised through economic means. Inducements, or “carrots,” and threats, or “sticks,” are often characterized as the hard power methodology. Although sometimes employed physically, indirect hard power through intangible threats or payoffs often are effective in gaining the desired outcome.<sup>21</sup> Successful indirect hard power is often employed because of the projected legitimacy and by the conscious desire to follow the leader.

In support of national and international interests, political policy can take many forms and intensities. Some of the traditional forms of political policy come in the form of soft and hard power. In Schelling’s *Diplomacy of Violence*<sup>22</sup>, deterrence and compellence are forms of hard power and represent the threat of or the power to hurt. As a political escalation measure, coercive diplomacy and coercive economics are one step away from inflicting harm and incurring violence, War. Coercive economics is a form of hard power, and is based on extreme leverage of national and international economic systems affecting a state’s sovereignty. The transition from the application of economic sanctions to the employment of coercive economics to secure political objectives is coercive economics.

According to Clausewitz, “Policy is the guiding intelligence and war only the instrument.”<sup>23</sup> Although the actual and physical use of violence and force in support of political ends is War, coercive economics for the 21<sup>st</sup> century is in essence a legitimate and effective instrument of political policy. The political objective and motive for economic preservation will thus determine the extent or level of intensity of economic measures. The use of soft power and hard power can be leveraged together in order to

attain certain political objectives. Smart power is the integration of both hard and soft power to achieve an effect. The proper balance of hard and soft power acts as a foreign policy multiplier and will become the foreign policy objective for the 21<sup>st</sup> century.

The liberalism school of analysis plays a key role in defining the importance of economic influence to the balance of power and global system. The liberal paradigm shift has begun a resurgence in the 21<sup>st</sup> century.<sup>24</sup> Liberal thinking encompasses three main approaches: economic, social and political. Instead of the desire to dominate through the use of military power, the liberal approach calls for the desire to live well through free-market competition and cooperation.

The inter-relationship of the global system and balance of power is the fundamental support structure in developing the use and theory of coercive economics. Economics is an instrument to achieve recognized political objectives through the act of coercive leverage. Economics is not an isolated act and must transform and adapt to take the advantage, but it is always a reflection of political policy. There are several levels of coercive economics and each form of economic power can be escalated to affect diplomatic bargaining and achieving the political end state. Knowing the competition and defining clear objectives are imperative to engaging in coercive economics. Economic power and the effective use of coercive economics have transcended to an effective element of national power by leveraging globalization.

### Economic Coercive Acts

Coercive economic influence historically has been exercised through the use of sanctions, blockades and embargoes. The application of coercive economic actions has always been out there, but with globalization it has expanded in scope and effectiveness. Coercive economics has become increasingly instrumental in influencing

political and diplomatic objectives. The rise of China within the global system presents numerous economic issues that enforce the effects of globalization and use of coercive economic power. To understand the gravity of the economic pull that China has on the world market and global system, an overview is provided below.

China's currency manipulation is at the forefront of economic issues between United States and China. Economists estimate that China's currency is undervalued by at least twenty percent and could be as high as forty percent.<sup>25</sup> Since July 2008, in the wake of the global financial crisis and to safeguard China's export advantage, China stopped the appreciation of the renminbi (RMB). The People's Bank of China has strict control of the value of the RMB. The Chinese government requires exporters to trade the dollar for RMB through the system of state-owned banks. This has several effects: it prevents the dollar from being used on import goods or foreign investment; permits full control of the dollar by the Chinese government; and allows the government to set the RMB-dollar exchange rate. Consequently with no secondary trading market, the exchange rate stays within a narrow margin. The Chinese government collects the foreign currency and subsequently invests it in U.S. government debt.<sup>26</sup>

There are some benefits to the U.S. economy from the undervalued Chinese currency. The U.S. is able to obtain both more goods and services, and more investment capital to help our economy grow and keep the unemployment rate low.<sup>27</sup> However, the undervalued currency prevents competitors from entering the market and further strengthens the financial grasp that China holds within the U.S. economy and already stressed American households. Additionally, over the course of time there will be a noticeable reduction of domestic jobs and gap in manufacturing skills. Ultimately

the appreciation of the RMB would have a detrimental impact to China as it would slow accumulation of dollars into China and would subsequently encourage domestic Chinese consumption. A counter argument from the Chinese government is that the appreciation of the RMB would be detrimental to Chinese factories resulting in shutdowns and large unemployment for migrant workers for the entry-level manufacturing jobs.<sup>28</sup> Even at the recent G-20 Summit in Seoul, the expectations of the global community have been mixed about taking direct action against China's currency manipulation and ultimately sidelined the issue calling for further study. The strategic impact of eliminating the currency misalignment to the United States could potentially reduce the U.S. global current account deficit by \$100 billion to \$150 billion and positively affect the trade imbalance.<sup>29</sup>

The Chinese government's legitimacy and political monopoly is inextricably linked to the export driven economy and domestic employment.<sup>30</sup> For the first eight months of 2010, China's goods exports to the U.S. were \$229.2 billion, while U.S. goods exports to China were only \$55.8 billion and a notable increase of 20.6 percent over the same period in 2009.<sup>31</sup> This represents a four-to-one ratio of Chinese exports to imports from the United States and conveys the same trend since 2000. Additionally, China has cornered a greater share of the total U.S. trade deficit and remains the largest U.S. trading partner with 45 percent of the total in 2009. To further magnify the complexity and inherent risk associated with the trade deficit, China's government policies limit the ability of foreign companies from entering into procurement contracts and deals with the China's state- owned enterprises through their "indigenous innovation" policy. The effect is that high tech and information technology companies

are losing sales due to discriminatory laws, regulations and poor intellectual property protection.<sup>32</sup> The U.S. trade deficit with China has unprecedented challenges to the economy and national security. Although not focused on a singular or critical national security related import category, with exception of the high-profile rare-earth minerals, the mere volume and dependence on Chinese imports demand closer evaluation. As such, import vulnerability and interruption currently exists and alternate suppliers must be researched and leveraged.<sup>33</sup>

As the third inter-connected relationship to U.S. – China monetary relations, China is the largest holder of U.S. debt. China's domestic economic policy cultivates foreign investment holdings into U.S. capital account surplus. Of the reported \$7.5 trillion in publicly held U.S. Treasury securities at the end of march 2010, China held approximately a quarter of all Treasury securities held by foreign investors and about 12 percent of the total publicly held Treasury debt.<sup>34</sup> Although there is no immediate threat of selling the Treasury securities, the financial leverage generated by China's substantial holdings have grave implications in attaining future foreign policy objectives.

Rare-earth minerals seem to be the latest sensitive issue between the United States and China. Rare-earth minerals include neodymium, yttrium and dysprosium, terbium and samarium. China's domination of the market has far-reaching effects ranging from global trade friction to U.S. job losses and directly threatens national security.<sup>35</sup> Rare-earth minerals are a critical element in the manufacture of many military applications, including helicopter blades, night vision goggles, guidance mechanisms, high strength magnets, satellite motors, and radars. China provided ninety-seven percent of last year's supply and holds the largest share of the worlds

reserve for rare earth minerals.<sup>36</sup> Earlier in 2010, China stopped shipment of rare-earth minerals to Japan and slowed exports to the U.S. and European markets.<sup>37</sup> The temporary stoppage of rare earth minerals to Japan was precipitated over the arrest of a Chinese fishing trawler captain near the Senkaku Islands. To further complicate the situation, according to Keith Bradsher of the New York Times, “China plans to increase the export tax on rare earth minerals. Although the World Trade Organization rules ban export taxes, China has imposed them on rare earth minerals for the last four years.”

Not only are there domestic implications of rare earth minerals to defense systems, but it has a devastating impact to clean energy technologies, such as electric cars, solar, light bulbs and giant wind turbines.<sup>38</sup> In addition to the import vulnerabilities of rare earth minerals, China also increasingly dominates the manufacturing of clean energy technologies, in particular million-dollar wind turbines.<sup>39</sup> Chinese companies are increasing their leverage and control almost half of the \$45 billion global market of wind turbines. Aided by low interest loans backed by Chinese government-owned banks, Chinese companies are now opening sales offices across the United States in hopes for increasing exports next year.<sup>40</sup>

China’s manufacturing and exports prowess has led to significant domestic implications and concerns. China’s coal consumption is twice that of the United States. China, which has 55% of the world coal reserves, is the leading country for pollution and is largest emitter of greenhouse gases.<sup>41</sup> Emission control and reduction of greenhouse impacts are necessary for sustained environmental preservation. The search for natural resources is at the forefront of Chinese diplomatic policy. To continue the unprecedented growth levels in their economy over the last decade, energy sources

must be secured and harvested. The latest standoff between Japan and China can be attributed to the quest for energy resources. The Japanese Senkaku Islands are becoming an attractive quest for China, as it contains natural resources of oil and natural gas. The economic interest in tangible and intangible natural resources between China and the United States could potentially result in elevated intransigence. Rapid expansion and depleted reserves of national resources have created energy concerns for China. Much of China's economic expansion in the Middle East, the Americas and Africa can be traced to securing energy interests.

#### U.S. - China Implications

The above economic issues convey and assert an understanding of the economic relationship for the balance of persuasion that potentially could shape international relations. The fusion of globalization, economic ideology and society magnifies the effect of the China's national and economic power. The effective shift in balance of power as a result of economic influences could potentially become an extortion of national power that develops into a so called "Ponzi" scheme, where more and more economic support is needed to "repay" the previous acts. However, the United States has a broad range of options to consider in developing a comprehensive cooperative approach to maintaining world trade and economic stability.

China's entry into the World Trade Organization (WTO) in 2001 was a promise of a more balanced trade relationship with the U.S. and an illusion that there would be a transformation of China's authoritative government and enhancement to U.S. – China national security policies. To the contrary, it has created an unbalanced trade relationship and created a concern and escalation of national policy interest in U.S. – China relations. The U.S. government has filed a variety of WTO cases against China's

barriers to trade, but the WTO dispute resolution has been ineffective in addressing and resolving currency and trade imbalances occurring from China's growing economic and industrial policies.<sup>42</sup> Although there are mixed views on these issues, it nevertheless is inextricably linked to the U.S. – China national policy relationships.

Previous sanctions have been lack luster at best when dealing with China. A continuation and effectiveness of such policies will undermine the United States' position as a global leader. China will not compromise to avoid sanctions and history is quite clear about their determination and intransigence. Additionally, unilateral actions by the United States will remain ineffective. The United States must take an active role in developing, revitalizing and maintaining cooperative relationships worldwide. In this globalized economy, U.S interests are intertwined to outcomes internationally and has established an economic interdependence. The United States must recognize the quantifiable leverage and effectiveness gained through the use of multilateralism.

In the world of globalization, the free world needs a global economic power to lead the way. Although an authoritarian state, China is fully integrated into the world economy. China's complex globalized position within the international community may resort to a more assertive or coercive approach in attaining a new balance of power and preserving national interests.

A total U.S. domestic economic isolation or protectionism policy would result in U.S. degradation within the balance of power and a loss of confidence within the international community. Although the United States has lost some of its financial leverage through the recession, complete domestic isolation would risk mutually assured financial destruction for both the United States and China. In reaction to

economic isolation, China may grow more assertive and hostile to the United States while still managing to grow economically. Employing and maintaining economic power is critical to maintaining cooperative relationships worldwide and instilling economic growth. The United States must not foster a reclusive response to China, but embrace a proactive and cooperative political and economic strategy both at home and abroad.

In the recently released 2010 National Security Strategy (NSS),<sup>43</sup> President Obama makes a fundamental commitment to preserving the international system and highlights the need to develop a coherent and plausible China strategy at the forefront of U.S. national security strategy. Politically the most important aspect in attaining an enduring strategy for U.S. – China is ensuring bipartisan political support. The president's flexibility in developing an enduring and coherent U.S. – China policy has been undermined by the partisan agenda set by Congress. Therefore, a well communicated comprehensive national security strategy is key to ensuring bipartisan political support.

Preservation of international trade demands a multilateral and comprehensive approach. According to a recent New York Times article on 26 October, 2010, the Obama administration is reinvigorating cold war alliances with Japan and South Korea as well as sustaining presences elsewhere in Asia.<sup>44</sup> This is a first step in enlisting support for cooperative coalition strategies while communicating a center of influence. Reinvigorating cold war alliances are not enough, new alliances must be developed. Existing coalitions must be incorporated into unyielding and enduring alliances. Alliances must be grounded on strengthening institutions and mechanisms of cooperation. Additionally, the U.S. relationship with India must be strengthened and

supra-national entities like the European Union and African Union must be embraced. Cooperation between the United States and new regional and global partners are the essence in maintaining international order and free trade. The free market economies have a vested interest in maintaining fiscal responsibility, standards and free trade.

With all else being equal, economic measures will be the deciding factor in the relationship between China and the United States. Domestically, there must be emphasis in preserving American education, vocational skill sets and technical competencies. Additionally, there must be a comprehensive economic strategy to align domestic economic growth and international free trade with China's leverage on manufacturing. Clean energy technologies will play an increasing role in developing the economic and national security objectives. Reducing the U.S. national debt as well as reducing the reliance on China's support for U.S. Treasury bills is of the utmost importance.

The sphere of U.S. influence must be redesigned, integrated and leveraged into an economic cooperative approach. The tentacles of the free market must reach worldwide. Energy and natural resources will play a critical role in China's expansion. Rapid expansion and depleted reserves of national resources have created energy concerns for China. Securing tangible and intangible economic assets is critical to the further economic expansion and growth of China. Much of China's economic expansion in the Middle East, the Americas and Africa can be traced to securing energy interests of oil and natural gas. To counter China's natural resource focused economic policies, the United States must be involved. Economic aid and support to partners, coalitions and

newly formed alliances are critical in areas of China geographic resource expansion, most notably in Africa.

The application of economic power within the global system and China's continuing economic expansion has second and third order effects. Sea control may play a significant role in containing China's influence into securing their much needed resources. The modernization of China's military will play a dominant role in ensuring global development and economic policies. Sea control is critical in China's influence to securing their much needed resources. The United States must be engaged in maintaining critical trade routes and communication lines as it is vital to sustaining global free trade and international security.

### Summary

The foregoing analysis indicates a vitally important concern of China's economic growth within the global system and possible threat to U.S. national security. There would be merit in looking forward in time, not only looking through the lens at China today, but opening the aperture and challenging the United States and its role in the new global system. Within the global system, the expanded role of coercive economics will be an ever present and effective tool in shaping the future balance of power. Globalization has laid the foundation for leverage and conduit of 21<sup>st</sup> century legitimacy.

China's complex globalized position within the international community and intertwined relationship with the U.S. will undoubtedly fuel coercive economics. Current and historical U.S. - China policies have never been extremely effective and over the last several decades played only a peripheral role within the world stage. Partisan politics have played a significant and detrimental effect in U.S. – China relations. Even when exercised, most of the political posturing has been related to the ineffective

employment of sanctions. Similarly, Chinese policy makers are keenly aware of the U.S. political system, and are also subject to very similar in-fighting that affects the enforcement, adoptions and negotiations of political positions.<sup>45</sup> With that being said, the Obama administration has a unique opportunity to establish the foundation for U.S. - China relations that could ultimately lead to an enduring global partnership.

History writes the past and is usually done by the winners. In the end, victory is a political success and for the 21<sup>st</sup> century it is not achieved from the battlefield. Declaration of victory will be a paradigm shift from the days of old and economics will determine the victor. Globalization has provided the inter-connectivity to allow cross boundary leverage and magnified state and non-state interdependence. Winners and losers will be quantitatively measured or qualitatively determined by the economic prowess of the state actors. One of the discerning blueprints for the start of the 21<sup>st</sup> century, it will not be the political objectives or the political leaders that influence national survivability, but it will be the public and the economic viability of the country and citizens.

As the United States fights the war against terrorism, China is gaining economic power that will propel the United States into a post Cold War (or Post Global War on Terror) conundrum. Economic ramifications and limited political objectives limit absolute response. However, the United States must be ready to wage “war.” It will not be a total war or a counterinsurgency type war of nation building, but it will be a war of resources, free trade and global stability. The United States must establish a proactive and enduring comprehensive economic cooperation strategy to ensure preservation of U.S. interests through the regeneration of our economy and stability of the global

system. The scope of coercive economics is transitioning and expanding to a new era of hard power, and it will be through the check book.

## Endnotes

<sup>1</sup> C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy and Derek J. Mitchell, *China's Rise Challenges and Opportunities* (Washington DC: Peterson Institute International for Economics Center for Strategic and International Studies, 2008), 105.

<sup>2</sup> Richard N. Haass, *Economic Sanctions and American Diplomacy* (New York, NY: Council on Foreign Relations, 1998, 10.

<sup>3</sup> Joseph S. Nye Jr. and David A. Welch, *Understanding Global Conflict and Cooperation: An Introduction to Theory and History* (New York, NY: Pearson, 2009), 34-35.

<sup>4</sup> Ibid., 46-55.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Thomas L. Friedman, *The Lexus and the Olive Tree* (New York, NY: Farrar Straus and Giroux, 2000), 247.

<sup>9</sup> Ibid., 12-13.

<sup>10</sup> Ibid., 23.

<sup>11</sup> Ibid., 20.

<sup>12</sup> Clayton K.S. Chun, "Economics: A Key Element of National Power", *United States Army War College Guide to National Security Issues, Volume II Theory of War and Strategy*, 2010, 200.

<sup>13</sup> Ibid.

<sup>14</sup> Nye Jr. and Welch, *Understanding Global Conflict and Cooperation*, 54.

<sup>15</sup> Chun, "Economics: A Key Element of National Power", 203.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid., 206.

<sup>18</sup> Ibid., 209.

<sup>19</sup> Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics* (New York, NY: PublicAffairs, 2004), x.

<sup>20</sup> Ibid., 4.

<sup>21</sup> Ibid., 5.

<sup>22</sup> Thomas Schelling, "The Diplomacy of Violence from Arms and Influence," *United States Army War College Theory of War and Strategy Readings Vol. I*, (1966): 7.

<sup>23</sup> Michael Howard and Peter Paret, *Carl Von Clausewitz On War* (Princeton, NJ: Princeton University Press, 1989), 607.

<sup>24</sup> Nye Jr. and Welch, *Understanding Global Conflict and Cooperation*, 58.

<sup>25</sup> Mark Landler and Sewell Chan, "Taking Harder Stance Toward China, Obama Lines Up Allies," *New York Times*, October 26, 2010.

<sup>26</sup> One Hundred Eleventh Congress, *2010 Report to Congress of the U.S. – China Economic and Security Review Commission* (Washington, DC: U.S. Government Printing Office, 2010), 21.

<sup>27</sup> Terry Miller, "China's Undervalued Currency Benefits Americans", *The Heritage Foundation*, May 8, 2008.

<sup>28</sup> One Hundred Eleventh Congress, *2010 Report to Congress of the U.S. – China Economic and Security Review Commission*, 18.

<sup>29</sup> Ibid., 28.

<sup>30</sup> Ibid., 18.

<sup>31</sup> Ibid., 2.

<sup>32</sup> Ibid., 20.

<sup>33</sup> Derek Scissors, "Free Markets and National Defense: U.S. Import Dependence on China", *The Heritage Foundation*, September 21, 2010.

<sup>34</sup> One Hundred Eleventh Congress, *2010 Report to Congress of the U.S. – China Economic and Security Review Commission*, 30.

<sup>35</sup> Peter Robison and Gopal Ratnam, "Pentagon Loses Control of Bombs to China Metal Monopoly," *Bloomberg News*, September 29, 2010.

<sup>36</sup> Ibid.

<sup>37</sup> Keith Bradsher, "U.S. Called Vulnerable to Rare Earth Shortages", *New York Times*, December 15, 2010.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Keith Bradsher, “To Conquer Wind Power, China Writes the Rules”, *New York Times*, December 14, 2010.

<sup>41</sup> Bergsten, Freeman, Lardy and Mitchell, *China’s Rise Challenges and Opportunities*, 112-113.

<sup>42</sup> One Hundred Eleventh Congress, *2010 Report to Congress of the U.S. – China Economic and Security Review Commission*, 4.

<sup>43</sup> Barack Obama, *National Security Strategy* (Washington, DC: The White House, May 2010), 40-47.

<sup>44</sup> Mark Landler and Sewell Chan, “Taking Harder Stance Toward China, Obama Lines Up Allies”, *New York Times*, October 26, 2010.

<sup>45</sup> Haass, *Economic Sanctions and American Diplomacy*, 29.